

CLEAR CREEK COMMUNITY SERVICES DISTRICT

2022-2023 SHASTA COUNTY GRAND JURY



SUMMARY

The Grand Jury received information regarding the Clear Creek Community Services District (CCCSD/District). This information concerned accounting problems, lack of Board oversight, management practices, administrative personnel turnover, and water acquisition/distribution problems.

The Grand Jury investigated various aspects of the CCCSD as set forth in this report. The Jury found inadequate record keeping and uncollected accounts. The CCCSD Board failed to follow its own policies regarding oversight of District operations, which led to unapproved management practices. The Jury discovered the turnover of key administration staff contributed to the conditions at CCCSD. The lack of Board oversight contributed to the problem of water acquisition at reasonable rates.

The Grand Jury also looked into the District and its continued ability to have sufficient funding adequate to serve the customers of Happy Valley. New board directors and a new general manager, along with support from volunteers, are creating confidence in the future of CCCSD.

BACKGROUND

The unincorporated area of Shasta County currently called Happy Valley was first settled in the mid-1860s when water from a gold miner's ditch became available for agricultural uses. Although the region had a variety of names in its earlier years, the name Happy Valley was coined by a settler from the San Francisco Area in the 1880s. Historically, Happy Valley, a prosperous agricultural center, has always depended on plentiful water. That is just as true today for many residents as it was 160 years ago; today's water needs are for agricultural use, as well as the needs of rural and suburban residents. There are currently 8000 residents using water supplied by the water district, with total water connections of more than 2000 customers.

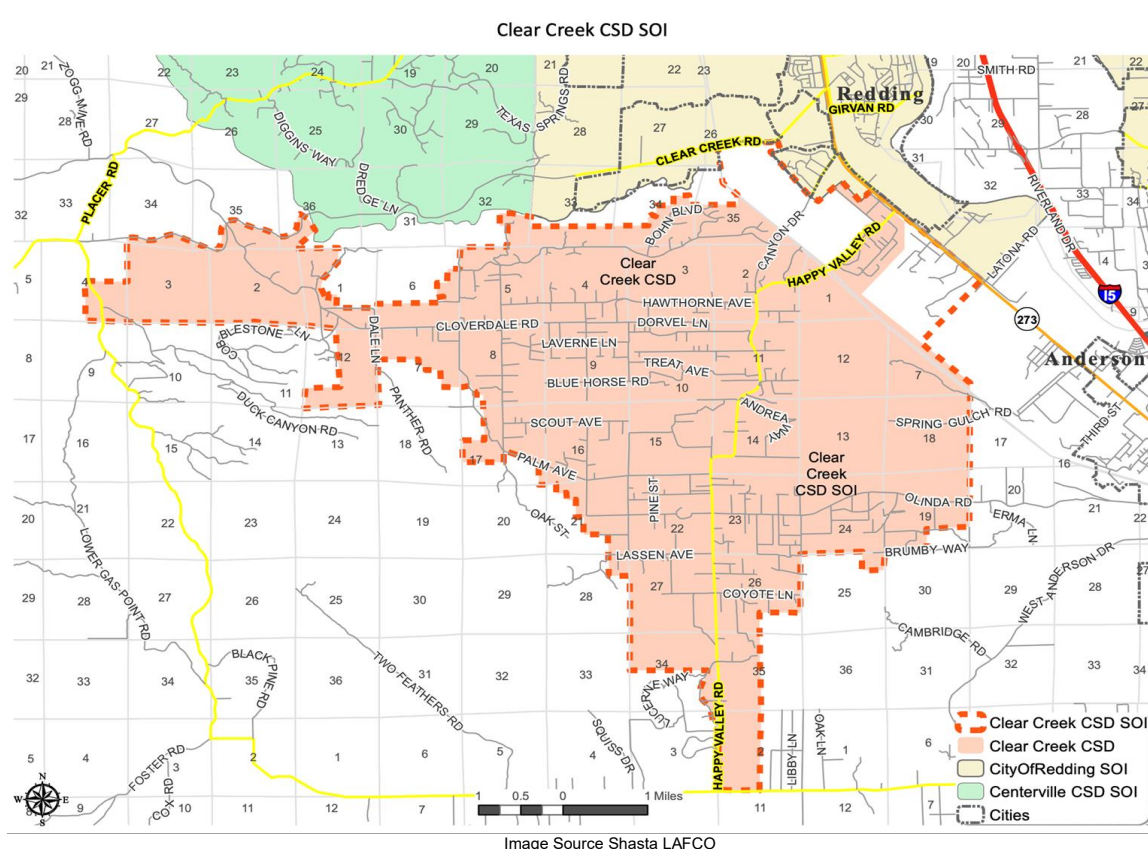
CCCSD was created in 1963 and has been responsible for the distribution of clean and safe water since that time. The Mule Town Conduit from Whiskeytown Lake has been a primary source of water for the District, which maintains over 100 miles of pipeline in its 33.8 square miles. The District has historically purchased water from other sources as well. In addition, the District maintains and pumps water from three deep wells in the southern part of its area and then uses a booster pump to push this water into its distribution system when necessary.

METHODOLOGY

The Jury used the following methods in this investigation:

- Interviews of CCCSD Board of Directors - past and present.
- Interviews of CCCSD staff, customers and volunteers.
- Site visit – March 27, 2023.
- Attendance at CCCSD Board meetings.

A detailed list of reference material is included later in this report.



DISCUSSION

CCCSD is governed by an elected five-member Board of Directors responsible for the provision of current and future water needs of the District's water customers, as well as ensuring continued efficient operations and providing oversight to the General Manager.

Daily operations of the District are delegated to the General Manager. The former District General Manager had been internally promoted in 2010 and later resigned in August of 2021. Upon that resignation, multiple issues within the District became apparent. Also resigning the same month were the bookkeeper and the office manager. Since that time, other administrative personnel have also left, to be replaced by people who were unfamiliar with CCCSD operations. The District asked a current employee to act as Interim General Manager, and finally hired a General Manager with water district experience in November of 2022.

The Carr Fire in July of 2018 and the Covid-19 pandemic of 2020 had significant negative impact on the District's finances. The fire damaged the CCCSD water treatment plant and backwash recycle ponds, while the pandemic impacted revenue collections. Statements in 2021 minutes and other public records reveal the District's cash flow problem resulting in a delay in receiving grants and loans for infrastructure improvement. Customer water needs were not met due to infrastructure decline, plus inadequate office support to process customer bill payments in a timely manner, which resulted in late payment charges for customers who paid their bills by check.

According to the CCCSD General Administrative Policies (GAP) the Board shall create standing committees for the purpose of making recommendations to the full Board. Although these committees have been formed, there is no available documentation that they met, nor are any reports to the Board from such committees recorded into the monthly Board meeting minutes over a several year period.

Currently the Personnel Committee is actively involved with the formation of the new union contract for its employees. The Agricultural Committee is charged with promoting agricultural water usage within the District. The Planning and Steering Committee provides pertinent information at crucial times of the year, especially at the time of the annual budget for the upcoming year. The main concern of this committee is the formulation of plans and policies for arranging, realizing and achieving District goals. The responsibility of the Financial Committee is to oversee the financial management of the District, including the preparation and oversight of reserve accounts and major expenditures.

Due in part to frequent Board Member turnovers, these committees have met sporadically or not at all. The Financial Committee failed to meet its intended purposes by not providing the full Board the necessary information to make adequate and timely financial decisions based on actual information about the financial health of the CCCSD since 2020.

In 2020, many concerned citizens formed the Happy Valley Community Committee (HVCC) as a watchdog group over the actions and policies of CCCSD. Members of this committee began to attend all Board meetings, to ask questions, and to demand answers about what they were seeing throughout the District. As time progressed some even became members of the Board to help solve the exposed problems within the water district that affected every resident.

In September of 2021, the CCCSD Board of Directors initiated a change in auditing firms. The State mandated audit for fiscal year (FY) 20/21 (July 1 to June 30) was finished and accepted by the Board in December of 2022, six months past the due date. The audit for FY 21/22 was started on schedule in early 2023, and has yet to be completed at the time of this report.

A review of past audits, fiscal years ending June 30th of 2014 through 2018, reveal continuing issues identified regarding internal controls and operational matters. The most important of these was the irreconcilable differences in the customer accounts Subsidiary Ledger with the General Ledger. The differences identified by the auditing firm grew from \$15,152 in 2014 to \$26,995 in 2018. The latest audit for FY 20/21 identified the same issue with the General and Subsidiary Ledgers.

In 2022, customers volunteered to assist the understaffed office with updating customer accounts. The auditing of customer accounts exposed uncollected accounts still on the books and non-collection of monthly active water bills and penalties. Directors voted in July of 2022 to write-off (uncollectable) historic past due monies owed in the amount of \$61,680.85. The CCCSD accountant had identified a total of 848 accounts past due, with 471 past due over seven years.

Additionally, volunteers worked on transcribing recorded backlogged Board minutes that had not been transcribed from 2020-2021. The minutes were finally approved and posted to the CCCSD website in late 2022.

The Grand Jury discovered no training or procedure manual(s) in place to ensure consistent proper accounting and bookkeeping practices at the District, whether for employees, vendors, or customers. Instead, training for new bookkeeping and/or accounting staff was done by individual handwritten notes and post-it notes. Turnover in office staff allowed past incorrect postings to compound year over year. With no formal training for new bookkeeping staff, monies were deposited into different accounts in error. Lack of procedures continue to make the flow of monies in and out of accounts difficult to assess.

Accounts Receivable

Customer accounts are identified by address. As customers stopped service or moved away, a new customer name was entered into the system, again tied to the address. Previous delinquent customer accounts were allowed to remain in the system without being collected. CCCSD was unable to deposit customer checks from September 2021 through January 2022 because the check scanner was out of order, resulting in late fee charges. CCCSD office staff had no regular deposit schedule enforced by management or the Board.

Additionally, Board Minutes from December 14, 2022 reflect a total of \$180,671 in delinquent charges on current accounts. The majority were more than 90 days past due. From 2010 through 2021, there was random enforcement of shut-off policies. Past management rarely enforced shut-off policies. Liens for unpaid accounts were rarely sought.

The CCCSD Board voted to enforce overuse penalties in December of 2022, contrary to past practices. Customers may ask for penalty forgiveness from the Board. Consistent enforcement of District water policy regarding penalties for over usage is a change from past practices.

The new auditing firm employed by the District identified Accounts Receivable errors. The District did not reconcile its Accounts Receivable Subsidiary Ledger with the General Ledger balance. An adjustment of \$197,223 between ledgers had to be made in order to correct the balance of the end of fiscal year 2021. The Jury determined the Board has not had accurate monthly information necessary to make fully informed financial decisions.

The New Board of Directors and the auditing firm confirmed numerous fund accounts with unreconciled balances. The entire bookkeeping system is being reconciled after being changed to a new system effective July 1, 2022. The migration to a new bookkeeping system and reconciling accounts started on July 1, 2022 and was ongoing as of the date of publication of this report. Staff is continuing to identify and correct errors in the previous bookkeeping system. New financial reports from July 2022 through December 2022, generated by current accounting software, have been approved by the Board.

Accounts Payable

The District's General Administrative Policy (GAP) requires the Board to determine salary and authorize time sheets for a general manager. The Board chose to include all employees in the Employee Association and memorandum of understanding (MOU), and pay hourly wages, including confidential office staff and general manager position. While state and federal rules allow these positions to be exempt from overtime and compensation time off (CTO), the Board chose not to use this exemption. This resulted in large overtime costs on weekly timecards. As written the MOU allowed for a very large CTO accrual that was due and payable when an employee retired.

In 2015 the District reported total wages for 19 employees to the State of California totaling \$605,630. In 2016 the wages jumped to \$776,349 for the same number of employees. Wages again increased in 2019 to \$962,875 for 19 employees. There were no presentations to the Board regarding restructuring of job duties, reorganizing salary structures, or placement of employees into new positions.

For six years, the total overtime cost was \$561,149. One member of management received \$193,687, or 35% of the total. That management position is now classified as exempt from overtime. CCCSD overtime costs as reported to the State of California were:

2015 - \$48,179	2016 - \$62,781
2017 - \$78,899	2018 - \$108,675
2019 - \$124,259	2020 - \$138,356

Another issue the Jury discovered in payroll discrepancies was the practice of employees donating CTO to other employees who were paid on vastly different pay scales. This made such donations inequitable, which was never addressed in payroll accounting.

When employees retired or left the District, duties were assigned or picked up by other employees. Job descriptions were not updated and correct wage compensation was not in accordance with the step process. Documents verify employees were accruing improper sick leave, while on-going attendance problems were never addressed by management or the Board. Improper job descriptions correlating to proper step and wage designations are a current negotiation issue. Employees have recently voted to be represented by United Public Employees of California.

In violation of the 2016 GAP requiring two authorized signatures or initials on invoices presented for check signing, the Jury found evidence that checks were signed with only one authorization, or authorization was entirely missing. When an authorized check signer left CCCSD, delays in adding new check signers occurred. On several occasions the bank notified CCCSD that unauthorized personnel were signing checks and signature cards needed to be updated. Also in violation of the 2016 GAP, Accounts Payable states invoices are to be processed on a semi-monthly basis. However, at the June 2022 monthly Board meeting, the check register showed payment to a local firm for past due invoices for monthly water analysis work completed over a ten month period.

Supplemental Pay

Supplemental Pay was in response to overpayment by employees into a program known as Other Post-Employment Benefits (OPEB). This benefit was established by the District as part of a Retiree Healthcare Plan in compliance with the CalPERS Public Employees Medical and Hospital Care Act. This plan provides healthcare benefits to eligible District retirees and eligible family members. The CCCSD does not have a record confirming the commencement date of providing Supplemental Pay, however District minutes reflect the overpayment to OPEB presented to the Board in 2017. CCCSD refunded the employee overpayment to employees, totaling \$110,811. The District completed this repayment in 2021.

Increasing Water Rates

In 2018 the Board voted to increase water rates. As a result, concerned customers became involved at Board meetings. The proposed rate increase was voted down after public protest and customers asked for an outside opinion on water rates. The Board then worked with an agency that helps small rural districts in California, known as the Rural Community Assistance Corporation (RCAC). After presentation of the RCAC study, titled Clear Creek CSD Financial Analysis, prepared in

2020, CCCSD customers demanded a Community Action Committee (CAC) be created. The Board approved the CAC creation. The CAC came up with three rate increase proposals. The main contention for CCCSD customers was agricultural water users paying lower rates than domestic water users. After years of public discourse the Board and CCCSD water users agreed on a flat rate proposal for all water users, with additional monthly charges for debt repayment and penalties for overuse. After a correct Proposition 218 process, the District was able to secure a public vote to increase water rates in August of 2021. That long delay in increasing water rates further added to the fiscal crisis.

Reserve Funds

In 2008, the CCCSD Board of Directors passed and adopted Ordinance 2008-11, The Reserve Fund Policy. The District Ordinance noted the loss of property tax income to the District in excess of \$380,000 due to the State budget crises of 2008. The Ordinance created specific reserve funds to be kept by the District. At a monthly Board meeting in 2019, the former general manager stated the reserves had been drawn down since the recession of 2008, creating a deficit of \$966,524.

The RCAC study, of 2020, notes the American Water Works Association recommended funding of reserves in the following areas and also notes a depletion of District reserve funds as follows:

- Operating Reserve Fund - the study found only \$33,869, with a full funding target of approximately \$230,000.
- Emergency Reserve Fund - the study found only \$37,011, with a full funding target of \$500,000.
- Capital Replacement Reserve - only \$136,000 available in investment. It states the District would need to set aside \$802,459 yearly to deal with aging assets in the District.

Procurement Procedures

Due to the Carr Fire in 2018, the District's Water Treatment Plant (WTP), located outside of Whiskeytown Lake, and the adjacent backwash recycle ponds were damaged. Fire damage was estimated at \$1,000,000.00. The Federal Emergency Management Agency along with the California Office of Emergency Services (FEMA/CalOES) provided local agencies with grant/loan combinations for repair. In June of 2022, CalOES notified CCCSD of improper procurement practices. There were four total findings and a Corrective Action Plan (CAP) was required. One finding cited procurement records not maintained to detail procurement history. A staff member created the CAP and the Board voted to accept and send the CAP to CalOES in July of 2022.

Water Issues

When CCCSD was established in the early 1960s, the US Bureau of Reclamation (BOR) built the treatment and distribution system used and maintained by CCCSD. This build was contingent upon CCCSD repaying the amount spent by the BOR over the next thirty years, at which time title to the system would be turned over to CCCSD. The system built was designated as a gravity feed system. This type of system has created continuous pressure fluctuations throughout the distribution system. In 2010, the District decided to sue the BOR for its flawed infrastructure design. One issue cited by the District was the on-going leakage of the main conduit located in the Whiskeytown area; repairs were estimated at \$1,000,000. As a result of losing the lawsuit on appeal, it cost the District \$712,000 in litigation.

District minutes, customer complaints and website alerts reveal an ongoing issue with the distribution system. Constant main line and minor line ruptures and leaks are usually dealt with by operation's staff. Numerous boil alerts have been issued to customers over the years. Customers

have complained of going without water for days when repairs were needed for a line break. The Jury found, due to long-term depletion of reserve funds, repairs have been piecemeal as ruptures have continued to occur. The Jury discovered a costly error when on July 4, 2022 the after-hours answering phone service was unable to contact the on-call operations staff regarding a major line break. Millions of gallons of water were released during a designated drought year. A commercial contractor had to be hired to repair the line break, costing over \$10,000. Another huge loss of water, over two million gallons, was reported to the Board in September of 2022. An isolation valve had to be replaced.

CCCCSD's inconsistent tracking of customer water usage also became an ongoing problem. Variances awarded to customers for a change in usage were not always entered into the billing software. Minutes show past staff complained of the time involved with the software input process. The District is currently working with a private company to correct software issues. Many water districts in Shasta County are dealing with BOR and State restrictions due to the proclaimed drought. In a non-drought year, the District could be entitled to up to 15,300 acre-feet (AF) of water. Water allocations have been severely cut back by the BOR, even to users with older water rights.

As the BOR has continuously cut back on water allotments, the District has had to rely on its groundwater supply by pumping from its wells. The cost of electricity for pumping is adding to the monthly outflow of money.

Erroneous forecasting of water needs in early 2021 and cutbacks by the BOR compounded the District's financial and water woes in late 2021. The District did not buy less expensive water when it was available earlier in the year. The District then scrambled to enter into a water transfer agreement with the City of Redding, dated August 26, 2021, for 500 AF of water at the price of \$462.38 per AF. The water transfer agreement was amended to add another 200 AF at \$328 per AF. Recent Board minutes indicate the District opened a line of credit with a local bank to help pay for the water, adding to its debt burden.

The Jury checked water treatment and distribution staff certifications, and at the time of writing this report they are current, according to the State Water Resources Board Certification website. While water availability has improved, there are still distribution problems due to the age of the system.

FINDINGS

- F1 Failure of the Board to provide oversight to management regarding payroll and overtime issues, as well as appropriate pay raises.
- F2 Failure of the Board to create and enforce policies and procedures for administrative personnel to do their jobs effectively and equitably for all CCCCSD customers.
- F3 The Financial Standing Committee failed to meet consistently to review finances and make appropriate recommendations to the Board.
- F4 The Planning and Steering Standing Committee failed to ensure that Reserve Accounts were used for the purposes intended.
- F5 The Board failed to review monthly financial statements that reflected actual vs. budgeted income and expenditures.
- F6 The Board failed to adhere to its own policies regarding maintaining adequate Reserve Accounts for capital expenses for repairs and replacement of equipment and delivery systems.

- F7 Insufficient planning by management contributed to the inability of CCCSD to meet financial and budgetary responsibilities for daily operations and customer service.
- F8 The Board ignored independent audits that identified irreconcilable differences in the Customer Accounts Subsidiary Ledger with the General Ledger from 2014 to 2021.

COMMENDATIONS

- C1 CCCSD customers who created the Happy Valley Community Committee, whose persistence helped to expose and correct the problems within the District.
- C2 The Interim General Manager and other staff who stayed and continued their service even under severe difficulties.
- C3 The customers who volunteered many hours to update the backlogged 2021 minutes and to audit customer accounts.

RECOMMENDATIONS

- R1 By December 31, 2023, the Board annually review the General Administration Policy for updates and modifications to ensure Board compliance.
- R2 By December 31, 2023, the Board review all Standing committees to assess their effectiveness and responsibilities or consider reconstructing the committees.
- R3 By December 31, 2023, the Board shall invite at least two CCCSD customers to serve on each Standing Committee.
- R4 By December 31, 2024, the Board shall oversee the creation and implementation of an Administrative Office Policies and Procedures Manual.
- R5 By June 30, 2024, the Board will conduct annual financial planning meetings in conjunction with annual budgeting process to establish short-term (1-5 years) and long-term (5-10 years) goals for operational growth, infrastructure build/maintenance, financing of projects, and revenue reserves.
- R6 By June 30, 2024, the Board will create and utilize a Budget Variance and Analysis Guide in order to meet financial obligations.
- R7 By December 31, 2024, the Board perform an annual performance review of the General Manager.

RESPONSES

Pursuant to Penal Code Section 933.05, the following response is required:

From the following governing body: (within 90 days):

Clear Creek Community Services District Board of Directors

- F1, F2, F3, F4, F5, F6, F7, F8
- R1, R2, R3, R4, R5, R6, R7

The Grand Jury recommends that all governing bodies place their responses to all Grand Jury Reports on their Regular Calendars for public discussion, not on their Consent Calendars.

REFERENCES

<https://www.clearcreekcsd.org>

CCCSD Board minutes from 2015 through 2022

CCCSD Budgets – 2015 – 2021

CCCSD Audits, FY ending June 30th 2015 through 2021

CCCSD Ordinances – 2000 through 2022

Employee Pay timesheets, 2018 and 2019

CCCSD General Administration Policy – February 2010, reviewed 2016 and 2022

CalOES Compliance Assessment, CR22-2782 Dated June 17, 2022 and CCCSD Sub recipient Corrective Action Plan Response

CalPERS Actuarial Valuation Report for CCCSD, dated July 2021

California Special Districts Association Guide to Special District Laws and Related Codes

Record Searchlight, July 11, 2010, Dylan Darling, *Small water district sues bureau*

CCCSD Customer billings – 2020-2021

CCCSD Competitive Bidding and Emergency Policy and Procedures – January 2005

<https://publicpay.ca.gov/Reports?SpecialDistricts>

Clear Creek CSD Rate Report Final- RCAC 7/9/2020

Water Transfer Agreement, City of Redding, C-9000, August 26, 2021

Shasta Local Agency Formation Commission (LAFCO) Draft of Municipal Services Review & Sphere of Influence Update – November 2014

Acquired emails from previous Board members

CCCSD Activity Reports and bank statements, 2021

Community Action Committee documents

CCCSD MOU with Clear Creek Employees Association – 2010

<https://www.usbr.gov>

https://www.waterboards.ca.gov/drinking_water/certlic/occupations/DWopcert.html

YouTube videos of CCCSD Board meetings

DISCLAIMERS

Reports issued by a grand jury do not identify individuals interviewed. Penal Code § 929 requires that reports of a grand jury not contain the names of any person or facts leading to the identity of any persons who provide information to a grand jury.

When there is a perception of a conflict of interest involving a member of a grand jury, that member is required to recuse from any aspect of an investigation involving such a conflict and from voting on the acceptance or rejection of a report. No member of the Grand Jury recused from this report.